

Message Text

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S E C R E T STATE 299218 TOSEC 320096

EXDIS, FOR SECRETARY FROM ATHERTON

E.O. 11652: GDS

TAGS: PFOR, ENRG, US, SA

SUBJECT: SAUDIS RESPONSE TO APPROACHES ON OIL PRICES

1. SAUDI ARABIAN AMBASSADOR ALIREZA CALLED ON ME DECEMBER 7 TO CONVEY ORALLY RESPONSE RECEIVED FROM FOREIGN MINISTER PRINCE SAUD TO OUR RECENT APPROACHES TO SAUDIS THROUGH ALIREZA ON OIL PRICE QUESTION. THE SUBSTANCE OF PRINCE SAUD'S RESPONSE WAS AS FOLLOWS: SAUDI ARABIA IS AGAINST A MAJOR PRICE INCREASE. ALL OTHER ARAB MEMBERS OF OPEC EXCEPT IRAQ WILL SUPPORT THE SAUDI POSITION, BUT THE SAUDIS NEVERTHELESS EXPECT TO ENCOUNTER DIFFICULTIES WITHIN OPEC. IN THE PAST THEY HAD RELIED PRINCIPALLY ON ECONOMIC ARGUMENTS TO RESIST PRICE INCREASES -- NAMELY, THAT THE WORLD DEMAND FOR OIL WAS DOWN AND IT THEREFORE MADE NO SENSE TO RAISE PRICES. WORLD DEMAND IS NOW RISING (SAUDI PRODUCTION LAST MONTH WAS 9.4 MILLION BPD), AND ECONOMIC ARGUMENTS WERE NO LONGER CONVINCING. IT WOULD BE NECESSARY TO BASE THE ARGUMENT AGAINST RAISING PRICES ON POLITICAL GROUNDS, AND IN THIS RESPECT SAUDI ARABIA URGED THE USG TO USE ITS

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INFLUENCE WITH ITS OTHER FRIENDS IN OPEC.

2. ALIREZA ADDED AS HIS OWN COMMENT THAT THE RECENT INCREASE
IN U.S. STEEL PRICES WILL MAKE IT ALL THE MORE DIFFICULT FOR
SAUDIARABIA ARG AGAINST AN OIL PRICE INCREASE IN THE
FORTHCOMING OPEC MEETING. ROBINSON

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